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**Vietnam**  
*to privatize or not to privatize*

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## **1.0 Introduction**

In 1986, the Vietnam leadership realized that the Maoist tradition of social transformation was contributing to the collapse of economic development in their country. Since that time, Vietnam has initiated two reforms, which focus on a market economy instead of a socialistic economy and have already served to boost their labor and capital productivity. The first reform is known as the New Economic Management Mechanism and the second reform is Doi Moi.

By 1992, Vietnam was considered to be macro-economically stable from the efforts of these reforms and the new policies and practices began to change the world's impression of their country. Despite Vietnam's recent success—poverty, hunger, and social inequality are still prevalent. In order to address these concerns, Vietnam's leaders and policy makers have chosen to focus their efforts in four areas:

1. Competitive markets
2. Continued reforms of state-owned enterprises
3. Expenditure on human capital formation (i.e. health services, education, family planning)
4. Investment in physical infrastructure (i.e. power, communications, transport, and irrigation)

One option the Vietnamese have not chosen to pursue is privatization. Since the 80s privatization has a proven track record for success. It has brought improvement to technology and infrastructure (i.e. waste, power, and transport), gained acceptance by the people of the country in which it is instituted, and encouraged financial reform. Why have the Vietnam leaders decided not to privatize? Will this limit their opportunity for infrastructure development that would normally be expected from privatization? Will Vietnam's current direction improve their infrastructure, bolster human development (especially in rural areas) and reduce poverty? What other macroeconomic and structural reforms can lead to growth within Vietnam?

To date, Vietnam's reforms have only improved the quality of life for the rich and middle class. In order to effectively improve the infrastructure and truly help those who are suffering from poverty and hunger, Vietnam should privatize; otherwise, social inequality will only continue to grow and no true improvement to the infrastructure can be made.

## **2.0 For Privatization**

Privatization can continue the remarkable changes that have occurred in Vietnam. To date, the focus within Vietnam has been centered on issues that create rapid results. However, in order to continue growth over the next decade, the World Bank has cited that Vietnam must follow the same kind of labor-intensive development strategy that has been successful in other East Asian economies. "The common features of this strategy have been macroeconomic strategy, reliance on the private sector to finance most investments, a strong focus on human resource development, and relative openness to foreign trade and investment" (Dollar, 12). To adhere to this strategy, Vietnamese leaders must direct their attention to privatization. Shown below are some of the main reasons to privatize.

### **2.1 Spark interest of foreign investors**

To date, Vietnam has not created a positive environment for foreign investors. Any foreign investment that does enter Vietnam is in the form of a joint venture. In fact the World Bank has concluded that Vietnam's "highly centralized decision-making will inevitably become a severe bottleneck for development. Thus, the most important strategic choice that the government faces is whether to give up some control and to decentralize decision-making in return for a faster pace of development" (Hiebert, 137). Thus the need for privatization beckons.

Without shedding the skin of state enterprises, providing an environment for private investment, and lowering trade barriers (Dollar, 12), Vietnam will not be able to continue the growth that they have had over the past few years.

### **2.2 Development of export services**

Privatization by foreign investors has the ability to change the status of a country from a developing country to an exporting one. The catalyst for this conversion is the technology that is transferred from foreign investors to the local country. A country that has utilized this technique and has been successful is Singapore, Japan. They created an open door policy with foreign companies that directly led to the improvement of Singapore's local contractor's performance from technology transfer that enabled them to

undertake larger projects at home and overseas, and enhance their competitiveness by upgrading their workers' skills.

To date, much of Vietnam's success has been from agriculture. However, as arable land decreases along with the declining land/labor ratio, Vietnam must shift their attention to non-farm production. With Vietnam's current lack of interest to privatize, foreign investors have demonstrated an unwillingness to invest in Vietnam. In fact, many of the joint venture enterprises that have been created have only supplied the domestic market with garments and textile industries.

However, before Vietnam can even begin to think about acquiring any technology transfer, they must develop their infrastructure. "The development of rural infrastructure is perhaps the most important precondition for accelerated development of rural non-farm enterprises" (Griffin, 101). This sentence provides no better reason for Vietnam to privatize because without it, they will never improve their infrastructure, never gain any new technology or capital, and never become a major exporter like their Southwest Asian neighbors.

### **2.3 Advance country's objectives**

Privatization will create a strong interest from foreign investors to enter Vietnam, which, in turn, will help the Vietnamese attain their objectives and become more advanced. The development of infrastructure (such as roads, water, power, or waste facilities) has been very successful in countries that choose privatization.

As stated previously, the Vietnamese state enterprises have focused their attention on items, such as agriculture, because they believed that this would have the greatest impact on their economy. To a certain extent, they are correct. However, their agriculture growth has reached its limit and in order to advance to the next step, they must attract foreign investors. If they do, Vietnam will be able to achieve their objectives much more quickly, at a lower rate, and higher quality than if state enterprises were involved.

### **2.4 Improve local skills, equipment, and quality of work**

In a 1992 Vietnam Living Standards survey approximately 75 percent of the

people in Vietnam were self-employed. By instituting privatization throughout the rural and non-rural regions of Vietnam, they will be able to expand their skills. Since Vietnam has a very strong primary and secondary education system, they will be able to learn at a much quicker rate than most developing countries.

The Vietnamese leaders must select specific projects that will enable foreign investors to bring in technical equipment, train Vietnamese people, and ensure that this equipment gets turned over to Vietnam upon completion of the project. Not only will this increase the amount of capital equipment that is within the country, but also improve future qualifications of Vietnam.

Vietnamese leaders must not interfere with the goals and objectives of foreign investors. This will only lead to catastrophic results. One example was a joint venture with Westralian Sands of Australia to process ilmenite (a mineral sand used to produce plastics, paints, and cosmetics). Vietnam had good intentions with this project since they knew that Westralian Sands would bring in equipment that would increase the amount of ilmenite output. However, relations went sour between both parties when local government officials placed two project managers from Westralian under house arrest. This unfortunately prompted "Westralian to pull its last expatriate workers out of Vietnam in May 1996" (Hiebert, 139).

### ***2.5 Elimination of poor public perception***

Many people who have grown up in a social system, especially those in rural regions, do not want to see the same communistic, state capitalist philosophy being instituted during economic reform. There is a lack of trust and a belief that state enterprises will only take care of the non-poor and provide a society where the rich get richer and the poor get poorer. By transferring ownership to the private sector, the people of Vietnam will be given physical ownership and make them personally involved in the transition from a planned economy to a market economy.

## **3.0 Against Privatization**

Privatization is not for everyone. It is essential that leaders of developing countries investigate their strengths and their weaknesses before determining what strategy will work most effectively. The change from a planned economy to a market

economy must be well thought out and the mechanisms to promote this change must be universally accepted by all. Lack of support would create economic turmoil versus economic growth. Reasons against privatization are evaluated below.

### **3.1 *Poses a threat to the future of Vietnam***

Until the reunification of Vietnam in 1975, no focus was ever given to economic systems that would improve the growth and human development of their country. For three decades, Vietnam only focused on war. These wars resulted in a tremendous loss of life, complete destruction of the country's infrastructure, and total disruption of the economy. This resulted in a state of utter poverty. In fact, the World Bank ranked Vietnam 12 out of 133 countries distinguishing them as one of the poorest countries in the world.

Now that Vietnam is transforming its economic system from a social economy to a market economy, the Vietnamese are fearful of privatization. This fear is threefold. One, Vietnam is scared that they will not be able to survive on their own. Two, there is no legal system that is in-place to protect them. Three, the Vietnamese do not understand the concept of owning shares in a company. The people of Vietnam have grown so acclimated to the socialist system that, "[t]hey think that privatizing state enterprises or allowing private land ownership means that they are deviating from communism" (Hiebert, 71).

If the citizens of Vietnam feel this way, then why should they be forced to select privatization? Why not provide a climate that they are comfortable with and still furnish an opportunity for their country to grow and strengthen economically like some of their Southeast Asian neighbors.

### **3.2 *State influence is necessary to improve the Vietnamese economy***

The state enterprises within Vietnam effect "one-quarter of the country's total output, 70 percent of industrial production, and over half of the government's tax revenue" (Hiebert, 72). Since state enterprises have so much control within the country, it would be more beneficial to improve the existing state enterprises than to reduce their capabilities. The Vietnamese leaders know their strengths and weaknesses of the state enterprises. For example, the Vietnamese leaders know that they are weak in commercial

law and banking. However, they recognize that state enterprises predominate the industrial and services sectors and understand the political climate.

In summary, the Vietnamese leaders do not want to disrupt the influence that the state enterprises have on their country. Privatization could alter this dominion and only make conditions worse. For example, a significant increase in unemployment could result or even worse, political chaos.

### **3.3 Create new private enterprises and mature state enterprises so they can survive in a market economy**

As can be expected, most foreign advisers recommend privatization as the most successful alternative to restore struggling economies. Griffin states that this has created "a belief that markets cannot operate effectively if some productive assets are owned by state or collective institutions" (41). He emphasizes that privatization actually produces "few tangible benefits."

Emphasis should be placed on reforming the socialist state enterprises rather than selling them. Griffin supports this argument by stating that the government agencies should concentrate on "sustaining growth and accelerating investment and growth rather than focusing exclusively on 'getting prices right' and increasing static allocative efficiency" (xii).

Based on these findings, it is more beneficial to improve the state enterprises rather than privatize them. Since over 12,000 enterprises originally existed in Vietnam, there is tremendous room for improvement. One primary focus is to merge, consolidate, and become more efficient. Another focus will be to institute budget, fiscal, and financial reforms. These types of changes will enable the state enterprises to maintain their dominance within the economy and create an atmosphere that will enable them to grow. In the past, the state enterprises would fund any endeavor; whether it was successful or unsuccessful. By providing hard budget constraints and cutting back on the number of state enterprises, this can provide an added incentive to improve productivity, which of course would effect and improve the overall economy.



### **3.4 Existing strong ties and commitments with the government agencies**

Privatization will disrupt the key relations developed between the state enterprises and government agencies. Trust and the ability to communicate with one another is a key ingredient in any business venture. The state enterprises and government agencies have already developed a sound understanding of one another.

If privatization were chosen as the number one option for reform, these new enterprises would find themselves at a complete disadvantage, which could, in turn, slow down growth. Therefore, the risk to privatize is not worth taking. State enterprises already understand how to overcome the "red tape" and "political clout" that exists. "The solution, again, is not privatization, but the creation of a transparent and much more simple system of state regulations" (Griffin, 45).

### **3.5 Focus on infrastructure improvement**

By most standards, the infrastructure of Vietnam is very poor. For example, nearly a third of the rural population (approximately 22 million people) live in households without a passable road. Of these 22 million people, only 5 percent have access to piped water. Nearly half do not have electricity or access to passenger transport. Only half of the suitable land for agriculture is irrigated (approximately 434 square meters).

Based on these facts, it becomes obvious that development of the infrastructure will have a profound affect on the poverty levels within this country. However, the means to bring the greatest infrastructure improvements is debatable. Should privatization take the lead or should the power be granted to the state enterprises?

Even though privatization is notorious for infrastructure improvement, Griffin states that "[o]ne cannot rely on the private sector to invest heavily in physical infrastructure because the benefits of investments are widely dispersed and it is difficult for the private sector to devise a pricing system that enables it to recover its capital outlays and earn a normal profit rate" (45). Thus, the state enterprises should take the lead.

Utilizing their strong relations with government agencies, special access to credit from the banking system, and joint ventures with foreign investors, state enterprises have

all the tools necessary to bring tremendous infrastructure improvement to the various regions throughout Vietnam.

#### **4.0 Conclusion**

The decision of whether or not to privatize is not an easy one. It would be wrong to say that the Vietnamese leaders made a poor choice in 1986. The reform process that they chose has been carried out very methodically and has been effective.

Their transition from a planned to a market economy has been implemented in phases. To date, Vietnamese leaders have taken the right steps and proper measures to ensure their success. However, if and when they find themselves at a stalemate, I believe there is adequate evidence that if they loosen the reigns and open the doors to privatization with enthusiasm that they will thrive, rather than merely survive. Privatization could help Vietnam develop a sound infrastructure, which serves as the key ingredient to expanding Vietnam's horizons.

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